



Action for Warm Homes

National Energy Action (NEA) response to Ofgem's consultation on the determination of a revised connections target and associated additional allowed expenditure for Fuel Poor Network Extension Scheme under RIIO-GD1

About National Energy Action (NEA)

NEA is a leading UK fuel poverty charity. At the forefront of NEA's focus are 4.5 million low income households across the UK - struggling to afford the energy they need to heat and power their homes to a standard of adequate health and wellbeing. NEA work to influence and increase strategic action against fuel poverty, develop and progress solutions to improve access to energy efficiency products and provide advice on fuel poverty related services to UK households. NEA has helped millions of households throughout the UK gain access to energy advice and energy efficiency grants. Over 440,000 heating and insulation measures have also been installed to over 360,000 homes through NEA's Warm Zones subsidiary community interest company which focuses on delivering energy efficiency solutions to low income households in deprived areas. NEA also provide the secretariat for the All-Party Parliamentary Fuel Poverty & Energy Efficiency Group, which was first established in 1995 as the Parliamentary Warm Homes Group, to raise awareness of the problem of fuel poverty and the policies needed to eradicate it.

Overview of key issues within this response

NEA has previously highlighted how the depth of fuel poverty facing some households is exacerbated if they are reliant on more expensive and possibly inefficient sources of space and water heating when compared to households on the gas network. NEA therefore welcomes the opportunity to comment on Ofgem's proposed revised connections target for the Gas Distribution Networks (GDNs) under RIIO-GD1. Whilst Ofgem has proposed they will now encourage GDNs to connect 18% more households (91,203 households) up until 2021 compared to the original GD1 connections target, NEA believes that the increase remains disappointingly low when compared to the previous Gas Distribution Price Control Review (GDPCR) period.

Within GDPCR, GDNs made circa 45,000 connections, so, if the connections target had not been revised for GD1 and it remained at 77,450 over 8 years this would have equated to circa 9,700 connections per year, almost one third lower per year until the end of the GD1 period in 2021. Even accounting for the 18% increase, the revised connections target is still too low; circa 11,400 connections per year compared to 14,500 per year under the previous GDPCR period. At a minimum, NEA would hope the final revised connections target Ofgem adopt will be equal to, (or preferably greater) compared to the yearly rate previously achieved under GDPCR period.

In addition, under the Stakeholder Engagement incentive and Discretionary Reward Scheme (DRS) GDNs are encouraged to maximise positive outcomes for their fuel poor customers and engage the most hard-to-reach households that could benefit from a gas connection. Specifically, Ofgem stated in its review of FPNES, 'even where a gas connection is not viable, we still expect GDNs to play an active role in working with other organisations to facilitate alternative forms of assistance', and 'we expect GDNs to use this (DRS) incentive to develop non-network solutions for fuel poor households, and to work collaboratively with other parties to provide funding for in-house works'.¹

As a result, Ofgem must insist the 'end-point' for a fuel poor customer in contact with their GDN should not be the offer of a gas connection. GDNs' obligations under the FPNES should instead be the trigger point for a fuel poverty 'triage'. Specifically, joining up to supplier obligations and other government led or local schemes to close funding gaps and enable access to energy efficiency measures (including insulation) and other fuel poverty assistance.

NEA has worked alongside the industry to demonstrate these credible pathways for households to access this assistance, dependent on property, location and vulnerability characteristics. Coupled with the development of a new interactive mapping solution for off gas grid homes which has been developed by the Fuel Poverty Advisory Group (FPAG) off-gas working group, industry, DECC and Ofgem; we hope that GDNs will now be required to embed these learnings and continue to build on good practice. Where there is activity continues to illustrate clear evidence of gaps in adequate service delivery; this should be feedback to Ofgem and central government and a suitable solution provided by extending or providing adequately funded and targeted programmes. Finding a reliable source of funding for 'in-house measures' continues to be particularly acute in England. NEA is aware that this was one of the main reasons given for many areas within GDNs territory not being set a higher connections target.

As a result, NEA continues to highlight that before the closure of the Warm Front scheme in January 2013, eligible applicants were guaranteed to receive assistance and could benefit from a grant of up to £6,000 if they were off the gas network. The grant could be paid for measures such as insulation, conventional and alternative renewable heating. This programme also ran alongside previous supplier obligations. The replacement scheme, the Energy Company Obligation (ECO) has not proved to be a suitable replacement and continues to fail to align with the FPNES scheme. In order to respond to some of these challenges, last year, the new Central Heating Fund was introduced to support the installation of first time heating systems (and ancillary insulation measures). In order for GDNs to reach or exceed their new connection targets, NEA believes the Central Heating Fund must be expanded and funding committed year on year to align with the duration of the current price, ending in 2021.

¹ Ofgem (2015). The findings of our review of the Fuel Poor Network Extension Scheme, p. 12. Available: <https://www.ofgem.gov.uk/ofgem-publications/94248/thefindingsofourreviewoffuelpoornetworkextensionscheme26march2015-pdf>.

In addition, the current domestic Renewable Heat Incentive (RHI) is currently under performing and appears to have failed to target those households that need the most help off the gas network. The main reason the RHI currently does not support low income consumers is that the incentive is operational and households that fail to have the upfront capital will not benefit. The RHI budget could however be adapted to provide a ring fence for households off the gas network who cannot afford the upfront costs of renewable heat technologies, especially to fund sustainable replacements to coal heating or oil or LPG fired boilers. This would help address a gap in provision for those households that will never benefit from a gas connection and will inevitably fail the 'economic test' within the FPGNES.

Heeding these dual approaches could also ensure Ofgem felt more confident in introducing a new additional requirement for all properties which receive new connections under the FPGNES to also have to install basic insulation. This precedent is already evident under the RHI and its introduction within the FPGNES would enhance the affordability outcomes which could be realised by any new gas connection. More broadly, the coupling of new sources of heating with basic insulation would ensure the FPGNES becomes more consistent with DECC's Heat Strategy and the aim to "squeeze" fossil fuels out of domestic space heating by 2030.

Finally, NEA would request that Ofgem continue to work with the Department of Energy and Climate Change (DECC) to analyse the contribution that the final connections target and FPGNES will make to progress towards the interim milestones and 2030 fuel poverty target and supporting the successful implementation of the new fuel poverty strategy for England². This requirement should be built into any annual reporting on the FPGNES and any analysis should be made publically available if any estimates have already been calculated.

Response to the consultation questions

Questions 1: Do you agree with our assessment of revised connections target for the GDNs for the Scheme?

No. As noted above, at a minimum, NEA would hope the final revised connections target Ofgem adopt will be equal to (or preferably greater) compared to the yearly rate previously achieved under GDPCR period.

Questions 2: Do you agree with our assessment of the additional allowed expenditure for the GDNs to facilitate additional connections under the Scheme?

No. The assessment of the additional allowed expenditure is clearly contingent on agreeing Ofgem's proposed revised connections target. As noted above, NEA believes that this proposed increase remains disappointingly low when compared to the previous Gas GDPCR period.

² In line with 'Cutting the Cost of Keeping Warm, 2014 HM Government' the new Fuel Poverty (England) Regulations 2014 are now law. The objective is to ensure that as many fuel poor homes as is reasonably practicable have a minimum energy efficiency rating of Band C, to be achieved by 31st December 2030. This goal is supported by non-binding interim targets and the fuel Poverty Strategy which was published in March 2015. The independent body established under the Climate Change Act to advise the UK Government on reducing greenhouse gas emissions, the Committee for Climate Change (CCC), estimates that an investment of £1.2 to 1.8 billion per annum is needed to reach the requirements outlined in the Fuel Poverty Strategy for England and improve the homes of those currently in fuel poverty up to EPC Band 'C' by 2030. However, current resources are less than half of what is required to meet this target.